

USDA Discussion Framework

Some of the questions posed:

How do we ensure we have access to a flexible transportation infrastructure?

How do we encourage adequate competition in the rail sector?

What is needed to promote growth and development in rural America?

These questions deserve a better answer than the Class I railroads' “just do nothing” response.

What Is ARC?

A **diverse coalition** of rail dependent customers representing:

- agriculture
- coal and utilities
- chemicals and petrochemicals
- consumer and industrial products
- forest and paper products
- port and industrial development authorities

ARC's MISSION

- To develop a consensus plan for achieving rail-to-rail competition
- To spearhead legislative changes that would implement that consensus plan

What does ARC want?

- The single problem of rail customers nationwide is lack of choice *among rail carriers*.
- Solution: ARC's efforts focus on improving rail customers' choices, which in turn, translates into better service at reasonable rates.

How Much Competition Do We Really Have?

Since 1980, drastic industry consolidation has occurred:

➤ 42 to 4 major Class I Carriers

⇒ 4 mega carriers generate 95% of gross ton-miles

⇒ 4 mega carriers generate 94% revenues

⇒ 3 control over 70% of grain movement





⇒ 4 control 88% of origin chemical traffic

⇒ 4 control 90% of U.S. coal movement

Will We See Only Two Monopoly Railroads in America?

- **U.S. railroads have indicated that the next rail merger will cause the rest to merge to a two railroad system nationwide**
- **Railroads, their customers, and virtually all other observers agree that further mergers are just around the corner**

Did **HASBRO**, in 1935, Get It Right About Railroads?

			
READING RAILROAD	SHORT LINE R.R.	B. & O. RAILROAD	PENNSYLVANIA R.R.
Rent \$25.	Rent \$25.	Rent \$25.	Rent \$25.
If 2 R.R.'s are owned 50.	If 2 R.R.'s are owned 50.	If 2 R.R.'s are owned 50.	If 2 R.R.'s are owned 50.
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Mortgage Value 100.	Mortgage Value 100.	Mortgage Value 100.	Mortgage Value 100.
<small>©1935 Hasbro, Inc.</small>	<small>©1935 Hasbro, Inc.</small>	<small>©1935 Hasbro, Inc.</small>	<small>©1935 Hasbro, Inc.</small>

They said, “if you own all four of the railroads....you are allowed to charge

8 times the rates

that you can charge if you only own one railroad”!

How Much Competition Do We Really Have?

The rail industry is anything but deregulated because accepted regulatory theories and policies protect railroads from competing with each other:

- ☞ one-lump theory

- ☞ revenue adequacy calculation

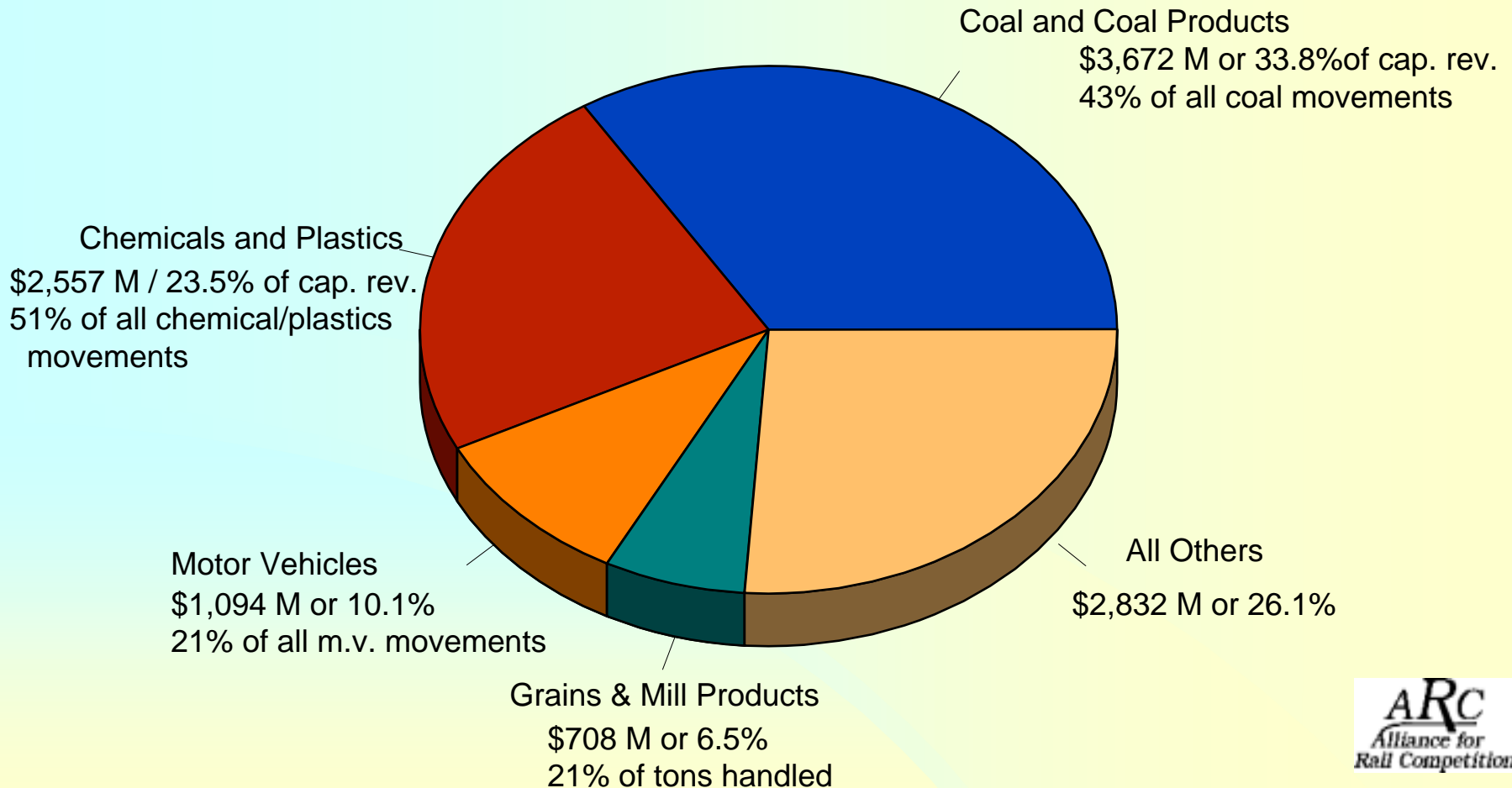
- ☞ bottleneck decision

- ☞ threshold decisions for granting trackage rights/reciprocal switching

- ☞ current merger policies

- ☞ rate case guidelines...

Captive Revenues by Commodity



Rail Transportation of Agricultural Products

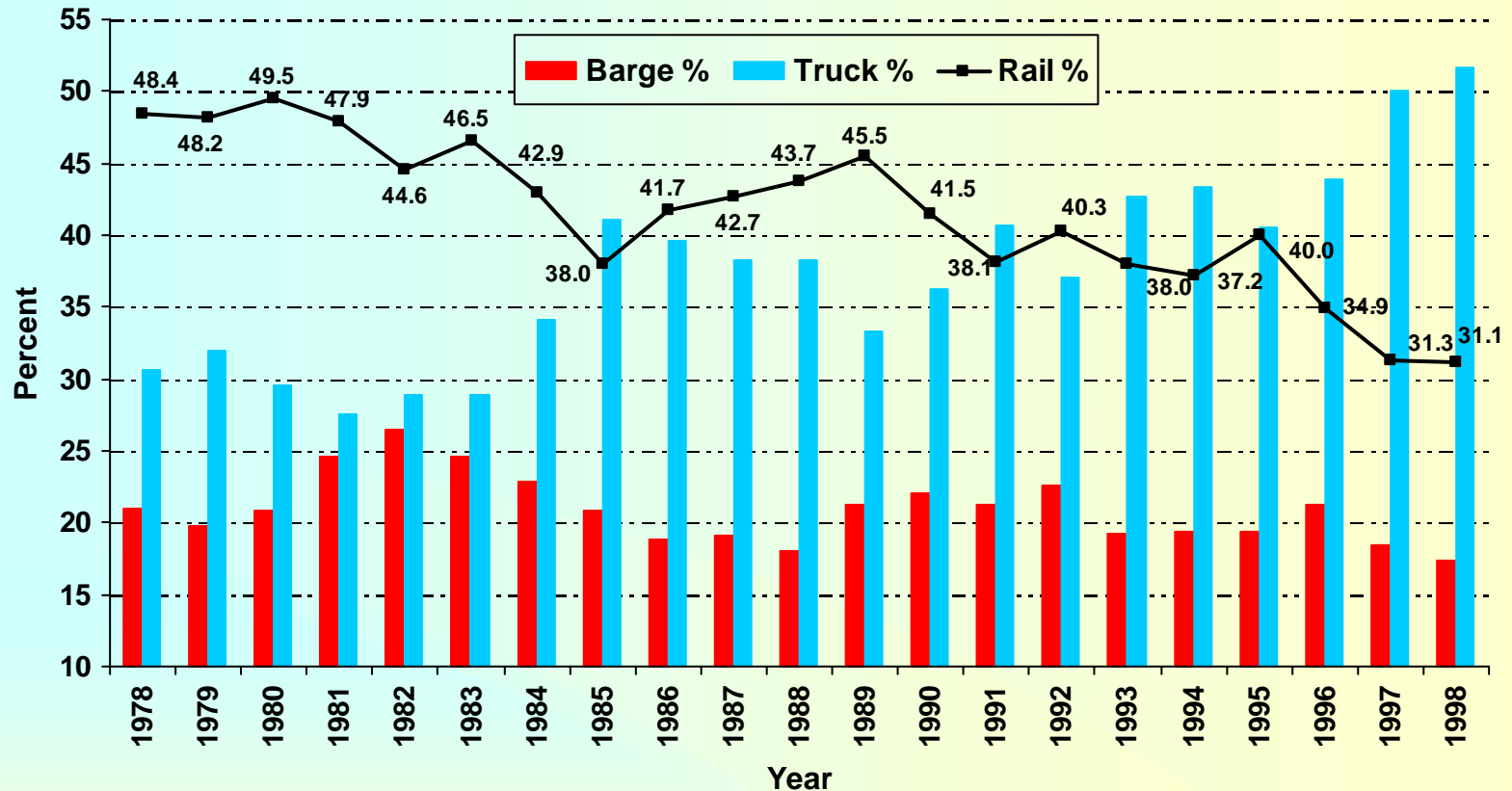
In 1999, American farmers produced 15.5 billion bushels of grains and oilseeds

- 31% (4.8 billion bushels) was moved by rail**
- Rail transportation bill = \$3.5 billion**

Other agricultural products ship by rail transportation:

- 23% lumber & wood products**
- 40% fertilizers and pesticides**

U.S. grain and oilseed modal shares, 1978-98*



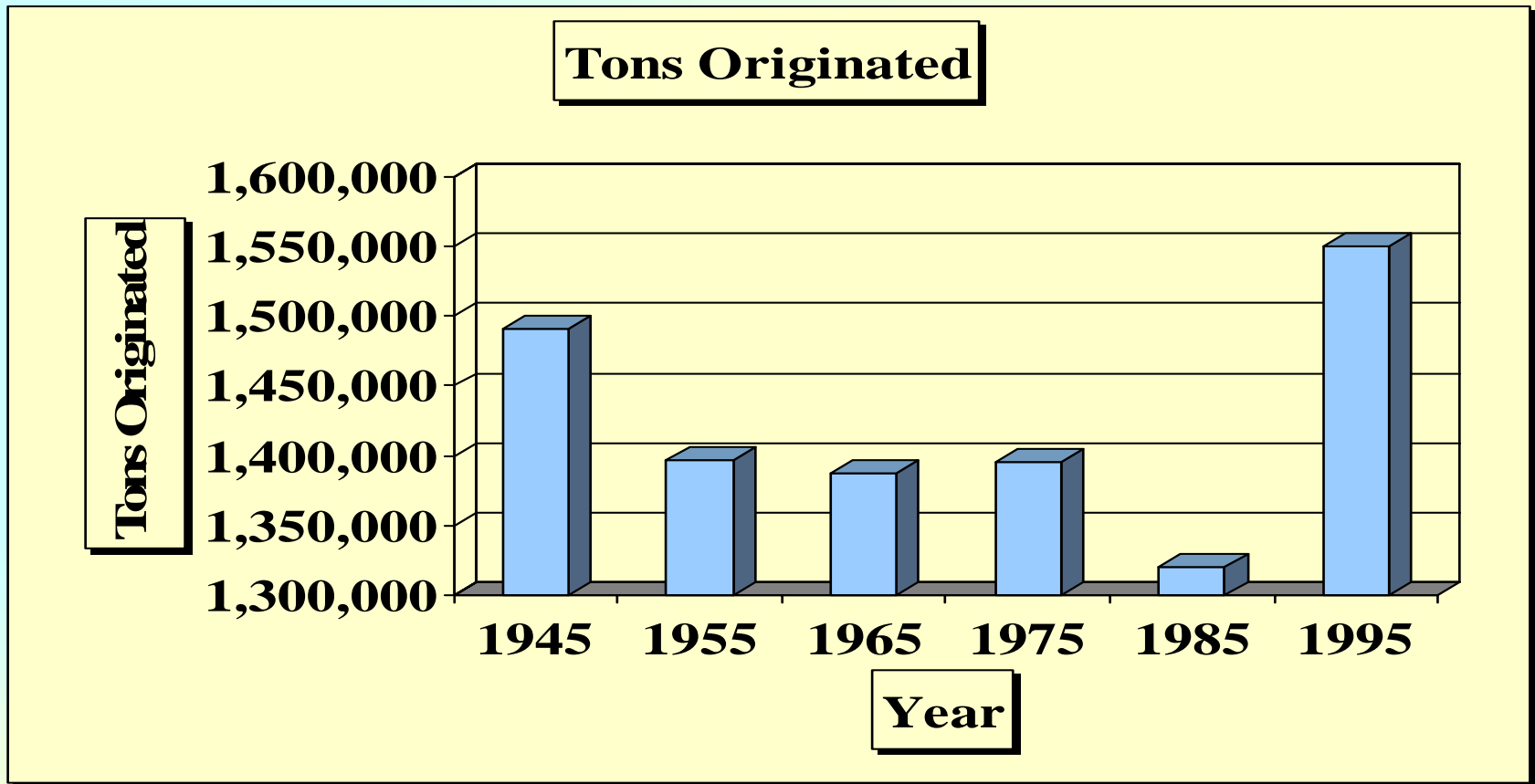
*Source: Eriksen, et. al., March 1998. 1996-98 preliminary data added.

Captive Agricultural Traffic

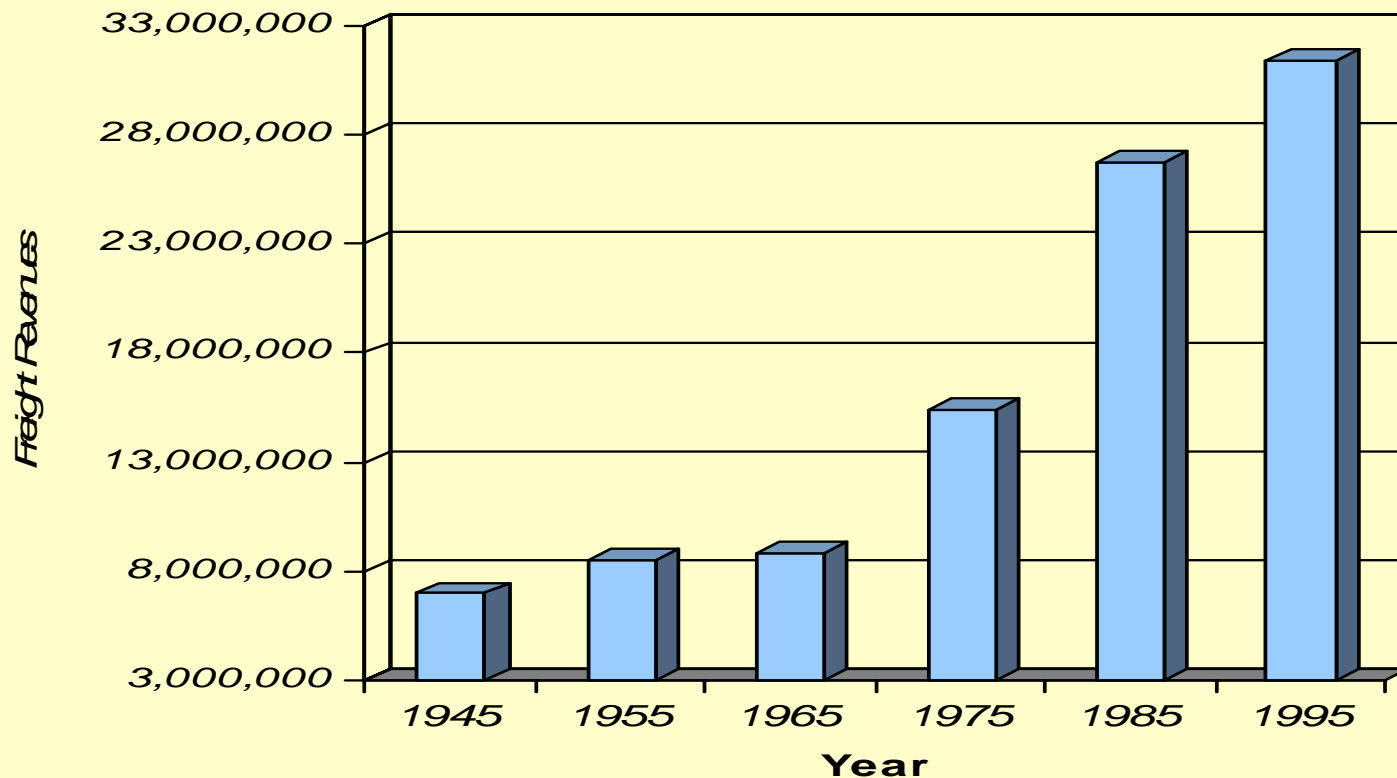
According to the 1997 Waybill Sample:

- 160 million tons of field crops moved by rail at average r/vc ratio of 1.31
- 21%, or 34 million tons moved at “captive” rates averaging 2.31 r/vc representing approximately \$607 million in rail revenues
- Captive commodities represented:
 - Wheat: 47.3%
 - Corn: 36.8%
 - Soybeans: 6.3%
 - Barley: 4.1%
 - Sugar Beets: 2.4%

Railroad Volume Has not Increased Appreciably in the last 50 years



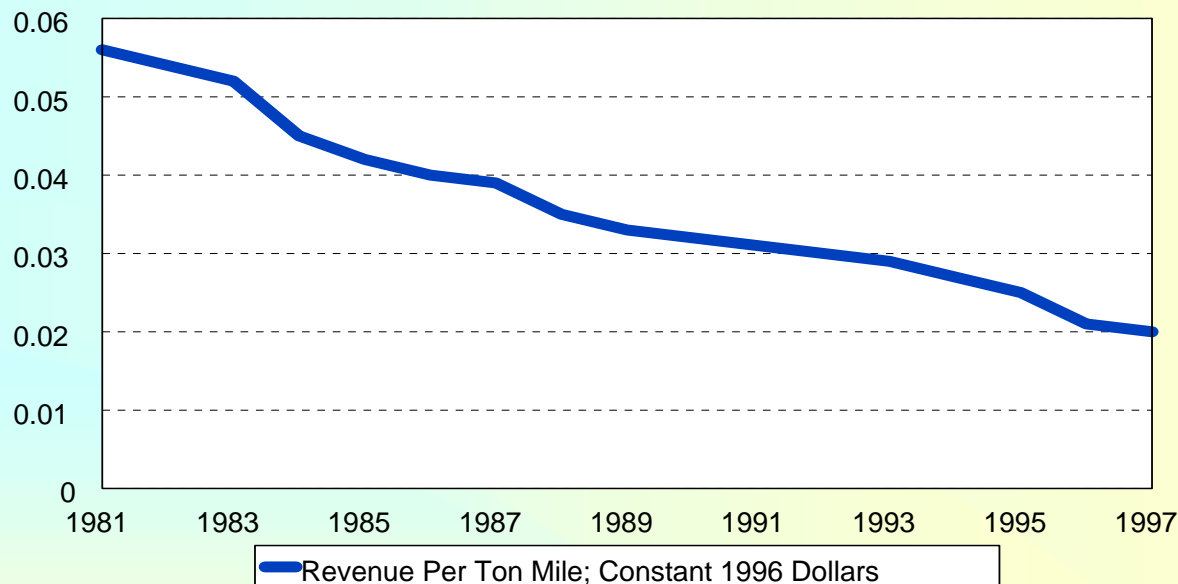
... Yet Revenues Have Increased Dramatically



According to the AAR, rail customers have no cause for complaint based on its revenue per ton-mile data, which claims “deregulation” produced a 55% decrease in “rates.”

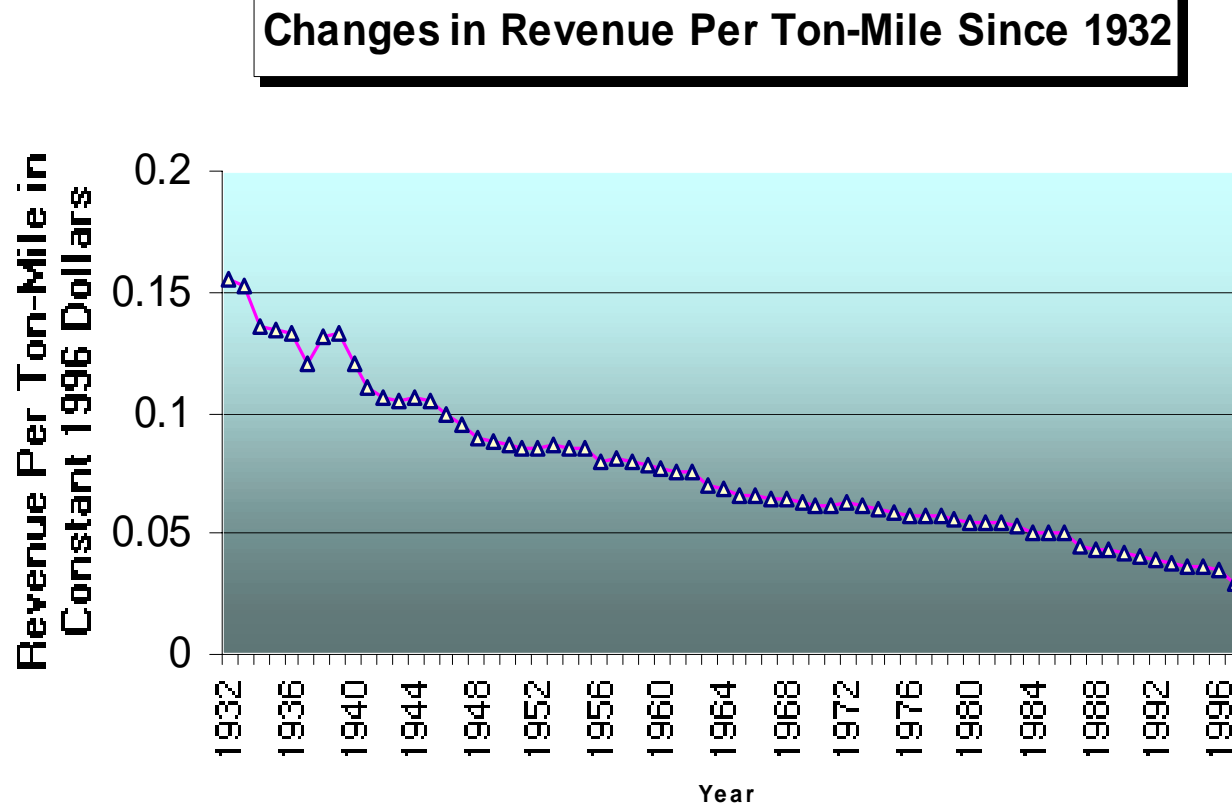
Changes in Revenue Per Ton-Mile

(1996 Constant Dollars)



Source: AAR: Railroad Ten Year Trends, various years

In truth, revenue per ton-mile has been falling since 1932! Oops!



Source: R. L Banks & Associates, Inc.

Revenue Per Ton-Mile (RPTM)

doesn't measure rates or costs to rail users

RPTM declines when:

- heavy density commodities replace light density commodities
- average length of haul increases
- **other costs are shifted to rail customers, such as car ownership, branch line abandonments, etc.**

Furthermore:

- RPTM doesn't adjust for inferior, reduced levels of rail service and the added costs to customers due to shipment delays, car shortages and unreliable service.

What about Service?

Note these comments from rail customers

- **“If I could figure out a way to conduct our business without using railroads, I would absolutely without any hesitation stop doing business with them.”**
- **“There isn’t one [railroad] today that is easy or convenient or just competent enough to warrant doing business with,” he said. With the consolidation of the railroad companies “it is getting worse. As they get bigger we become relatively less important to them.”**
- **When will it get better? “They’ve told me not to expect any improvement until early next year, and that’s if we have a mild winter. You learn to deal with it ... You get numb.”**

The Trends

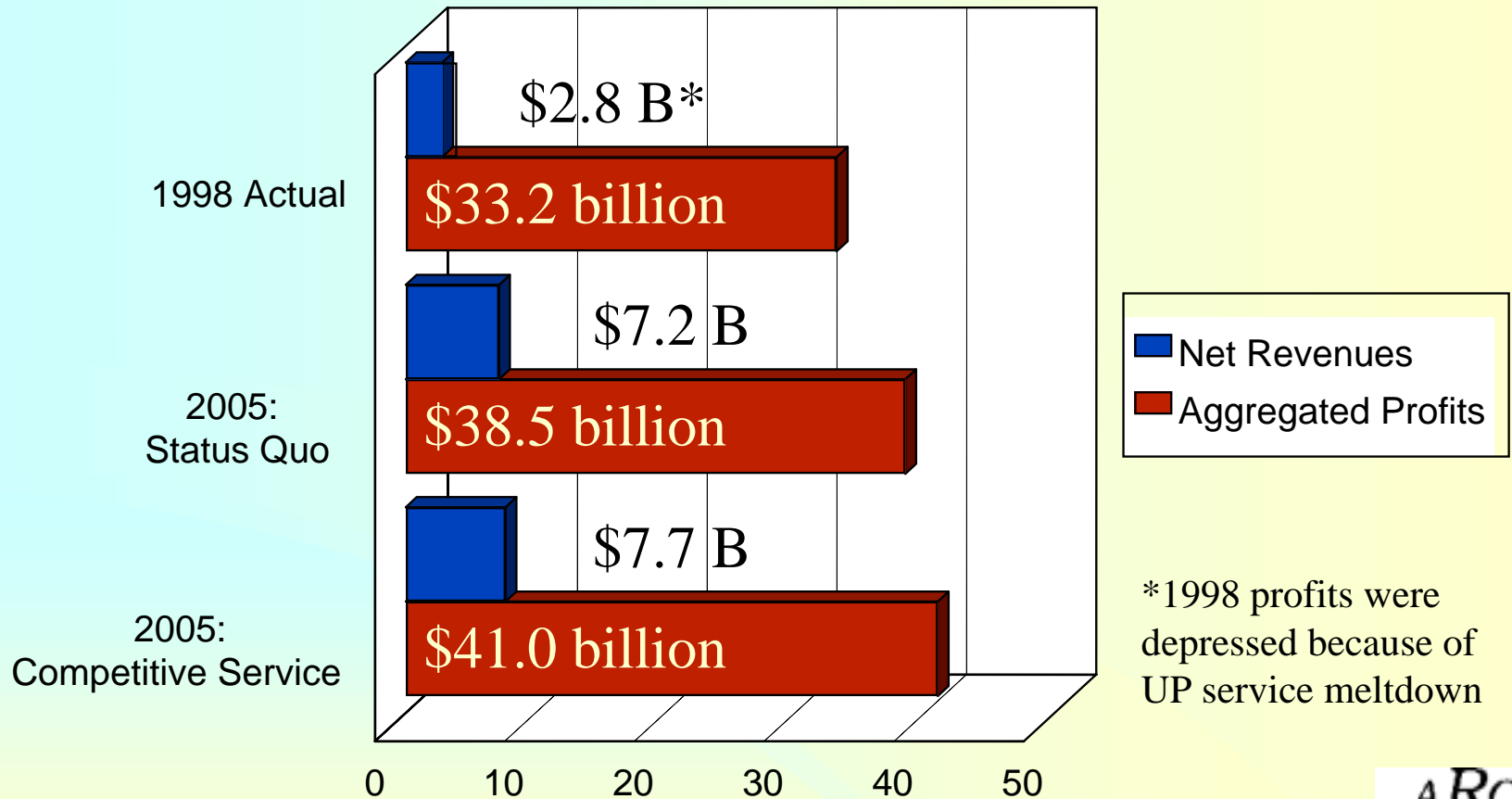
U.S. Rail industry is:

- **reducing its capacity and customer base in favor of only largest customers moving the most over the longest distances;**
- **inattentive to addressing customer needs or concerns;**
- **lacking any realistic plan to correct its problems;**
- **focused on mergers as the “silver bullet.”**

Summary: U. S. rail system is getting more and more fragile as it becomes more and more concentrated

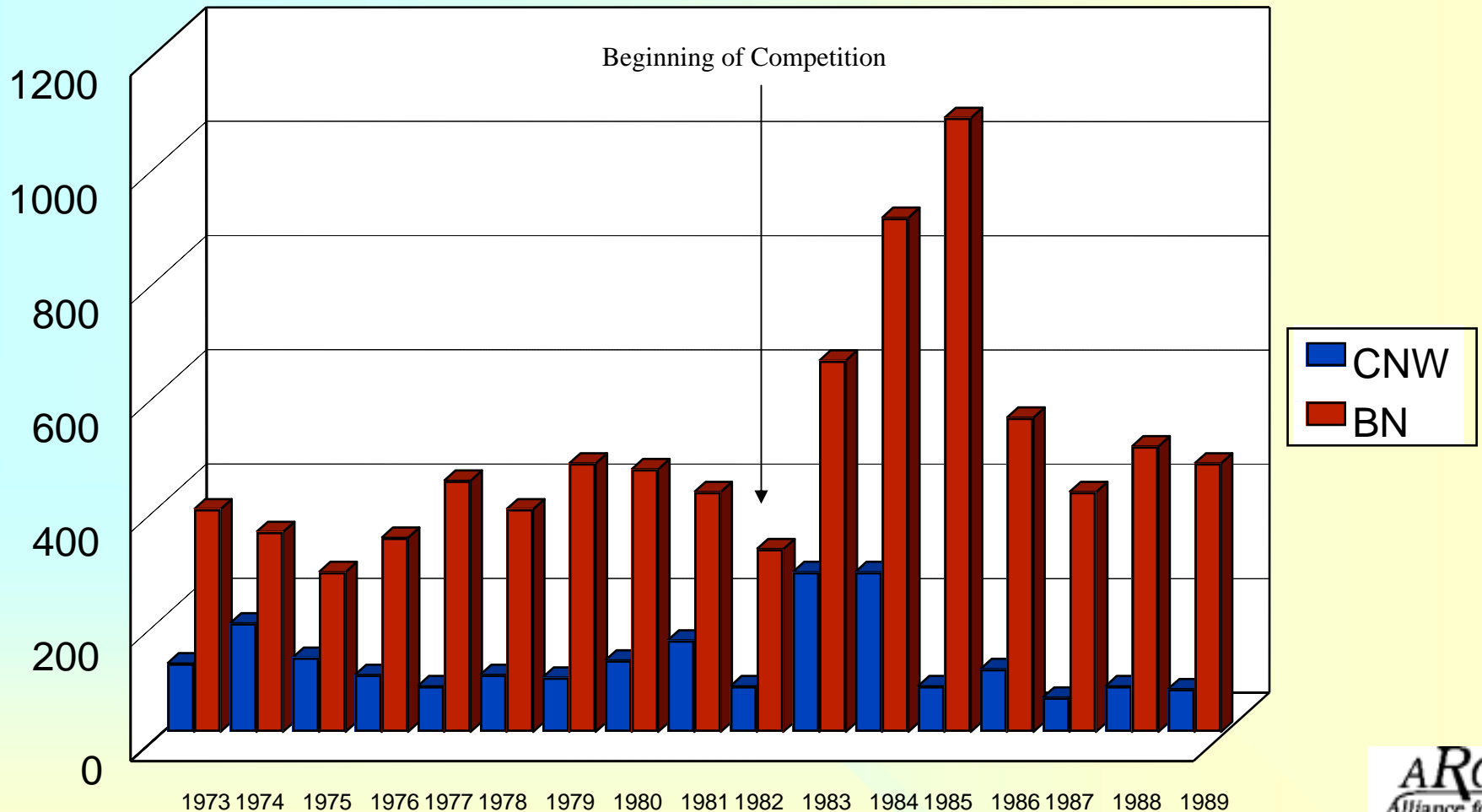
Competition Means More Revenues, Not Less

Railroad Industry Revenues & Profits--Projections (in Billions)

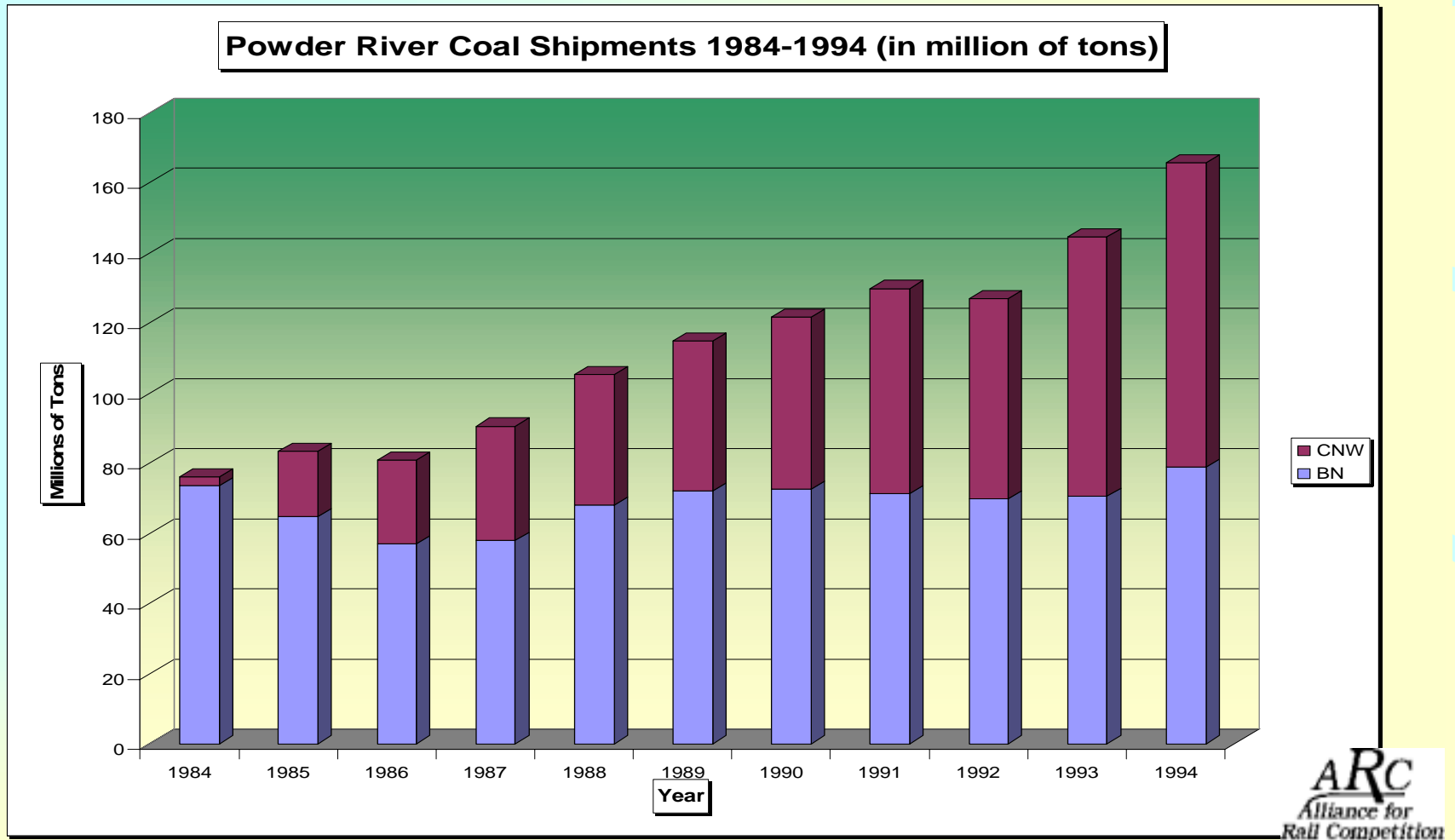


*1998 profits were depressed because of UP service meltdown

Railroad Behavior *Proves* Capital Investment Increases with Competition

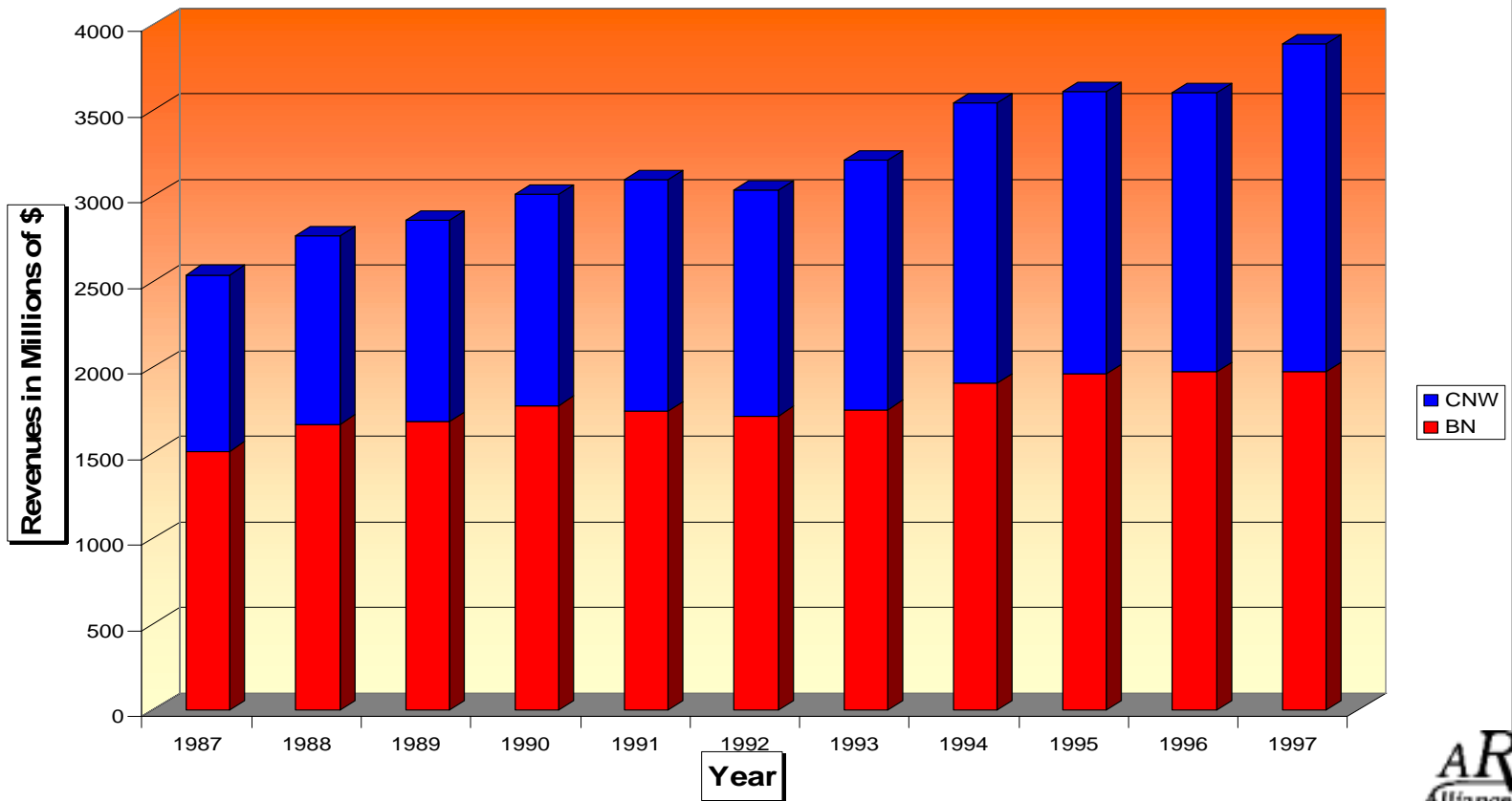


Competition Increases Productivity



Competition Increases Rail Revenues

**Summary of BNSF & CNW/UPSP
Coal Revenues - 1987-1997 (in millions)**



How Can We Achieve Rail Choice?

- ☐ STB has the authority to increase competition among railroads**

OR

- ☐ Congress can mandate increased competition, either through limited directions to the Board, or through express statements concerning access**

Is STB a Realistic Option? No.

- **STB told Congress in December 1998 that it had done all it could do within its authority to promote competition**
- **Recent cases decided by STB reinforce that the process is ineffective for rail customers (FMC, Union Electric)**
- **Merger Policy NPR is packaged in pro-competitive language but offers broad regulatory flexibility ensuring none of us have any idea how STB will measure mergers in the “end game”**

Proposed Merger Rule Particulars

- Ignores existing competitiveness problems resulting from previous set of mergers;
- Identifies no specific requirements for achieving “public benefits” or enhancing competition;
- Offers no specific remedies for mergers that fail to meet expectations;
- Allows for wide interpretation of what constitutes “enhanced competition.”

ARC Has Supported S. 621/H.R. 2784/H.R. 3446

The **Railroad Competition and Service Act** would:

- clarify rail transportation policy;
- require rate quotes over rail bottlenecks;
- promote competition within terminal areas;
- address special concerns of captive low-volume agricultural shippers;
- eliminate the annual revenue adequacy test;
- codify simplification of “market dominance” determinations;
- require railroads to submit performance reports to DOT

Time of Reflection

1. **The Substance of Debate**

- ☐ Do existing legislative provisions provide any relief if further consolidation ultimately results in two transcontinental rail monopolies controlling North American freight?
- ☐ Has the Board's unwillingness to act on competitiveness issues made it irrelevant?

2. **Tactics**

- ☐ Whatever we determine to be our legislative agenda, rail customers must become more engaged in the debate, and increasingly unified.

Rail Customer Coalition

ARC has been working with and continues to increase collaboration with:

- American Chemistry Council
- **American Farm Bureau Federation**
- **American Forest & Paper Association**
- American Plastics Council
- American Public Power Association
- Edison Electric Institute
- **National Association of Wheat Growers**
- National Association of Chemical Distributors
- National Industrial Transportation League
- National Petrochemical & Refiners Association
- **National Barley Growers Association**
- **National Council of Farmer Cooperatives**
- **National Farmers Union**
- National Rural Electric Cooperatives Association
- **The Fertilizer Institute**
- Transportation Intermediaries Association

Achieving Rail Competition Requires Your Support

1. We need policies in place that will ensure that we have a strong, viable rail system for the future, that *offers competitive choices to all its customers*.
2. Congress will not act independently of a unified and active advocacy effort involving a broad cross-section of rail customers.